

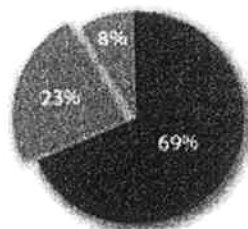
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ERICSSON ANNUAL REPORT ON FORM 20-F 2007

MILESTONES DURING 2007

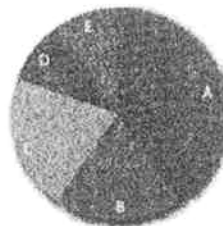
During 2007, we continued to outpace the market, with 16 percent growth. An important trend developed: Tier-one operators have become more interested in managed services, as they see the results that the early adopters get from outsourcing. Secondly, more operators asked us to serve as the prime integrator when introducing new multimedia services and when facing challenging technology shifts. Here are some noteworthy achievements during the past year:

- We entered a managed services agreement with France Telecom covering operations, rollout and field maintenance of the operator's mobile network in Belgium and in the Netherlands.
- Vodafone selected us to manage the supply and distribution of multi-vendor spare parts for its mobile networks across several of its major European operating companies including those in Germany, Spain and Portugal.



PROFESSIONAL SERVICES
SALES OF TOTAL

■ Networks
■ Professional Services
■ Multimedia



PROFESSIONAL SERVICES
SALES BY REGION

- Ⓐ Western Europe 41%
- Ⓑ Central & Eastern Europe, Middle East and Africa 19%
- Ⓒ Asia Pacific 21%
- Ⓓ Latin America 10%
- Ⓔ North America 9%

- KPN signed a five-year managed services contract with us for access network field maintenance in the Netherlands.
- We acquired the Spanish company HYC, focusing on consultancy and systems integration of IPTV solutions.
- We won a six-year managed services deal for operation and maintenance of Deutsche Telekom's microwave network in Germany. The agreement reflects the maturation of the managed services market, as it was the first managed services contract for an incumbent operator in its home market.
- We were selected to design, plan, deploy, optimize and manage Bharti Airtel's GSM network and its prepaid platform across large parts of India.

GOING FORWARD

Ericsson's early foray into services has created considerable advantages in skills and in scale, even though consolidation among other vendors has increased competition. We will continue to build on our early successes by working to grow in such areas as managed services, systems integration and consulting. We will achieve our targets mainly through organic growth, but we may make smaller acquisitions in strategic areas or add resources to support growth.

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MULTIMEDIA*—1% operating margin.**14% sales growth year-over-year.*

Ericsson established its Multimedia segment to better address operator needs for applications, solutions and devices to encourage subscribers to increase their usage. This was a year of direction setting, of organizing our areas of existing strengths and of supplementing those areas with strategic acquisitions. Along the way, we have taken important steps in assuring Ericsson's future growth.

MULTIMEDIA STRATEGY

To remain competitive, telecom operators have to deliver value beyond voice services. This means they must extend beyond the traditional confines of telecom and into the Internet and media industries. This injects a new level of complexity and different business model possibilities for operators. Ericsson's intent is to be the enabler of new revenue-generating services and applications.

In this new environment, Ericsson develops the multimedia solutions and acts as a facilitator to match operators and service providers with the right tools to distribute media and Internet content to their customers. Our expertise in managing complex networks capable of delivering IPTV, mobile TV, music solutions, messaging and user-generated content helps them give consumers the multimedia experience they want—flexibly and profitably.

On the media side, content providers benefit from our global presence and our relationships with operators around the world.

Our revenue management offerings help operators navigate different billing models, from the subscription basis of the telecom world to the content-specific basis of the media industry. To ensure multimedia services that deliver the experience people expect, Ericsson also develops and licenses mobile technology platforms for mobile devices.

Ericsson's multimedia strategy applies to the enterprise market as well, with unified communications (i.e. across PCs, phones and mobile devices), IP-based private branch exchanges and centrex solutions for operators serving the enterprise market.

A BROADER PORTFOLIO

Our ambition for growth required that we move swiftly into new territories with key acquisitions, to both complement existing areas of strengths and extend into new ones.

In March, we acquired Mobeon, a supplier of IP-based voice and video mail—key elements of our multimedia strategy. The acquisition of Mobeon allows us to develop our new messaging architecture more quickly, allowing easier integration of new applications with established messaging methods, such as SMS, voicemail and MMS.

Next, we improved our position in the IPTV and networked video solutions market by acquiring Tandberg Television in April. A world leader in video encoding and compression technology as well as on-demand and interactive video, the company brought a wide customer base with cable, satellite and telecom customers in more than 100 countries. Integration has been successful, and we now have a complete IPTV offering available around the world.

With the addition of Drutt Corporation in June, we extended our Service Delivery Platform (SDP) leadership with products and features that make it possible to acquire, launch, deliver and charge for content to mobile devices.

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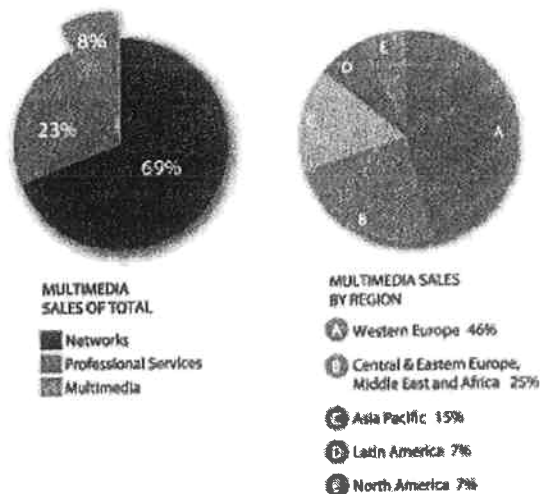
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We also acquired postpaid billing and customer care leader LHS to complement our proficiency in prepaid and real-time charging. The combination will allow operators to manage all users and services—prepaid or postpaid, mobile or fixed—in the same way.

MILESTONES DURING 2007

Here is an overview of Multimedia's performance in 2007:

- Ericsson and Turner Broadcasting announced a collaboration to develop Internet, broadcast news and entertainment content—including CNN International and Cartoon Network—for mobile multimedia environments.
- Telefónica España selected our mobile TV solution to provide consumers with rich mobile TV content and services.
- Together with TV production company Endemol, we developed 'Me-On-TV' to enable consumers to upload, publish and share live or recorded video content via any mobile device, from anywhere to any screen around the world.
- Vodafone Iceland selected our end-to-end IPTV solution to provide an integrated solution in the evolution toward converged multimedia consumer services, based on Ericsson IMS.



- Etisalat implemented our real-time convergent charging and billing solution, which enables them to offer the same services to all subscribers regardless of pre-paid or post-paid payment options.
- We introduced the first WCDMA mobile platform with HSPA capability, to enable mass-market HSPA multimedia devices capable of handling new services—including interactive mobile TV and video calling—that require both fast uplink and downlink data speeds.

GOING FORWARD

Multimedia is a huge market with the potential for strong growth and new customers from media and Internet companies. Although it is a fragmented market, Ericsson has a strong position in several multimedia areas—mobile platforms, service delivery platforms, and charging are all showing strong growth with healthy margins. IPTV, IMS and messaging are areas in which we are making significant investments. Furthermore, our relationship with Sony Ericsson provides a foundation for a strong business going forward.

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PHONES—SONY ERICSSON*12% operating margin.**18% sales growth year-over-year.*

Sony Ericsson—with a broad portfolio and a strong momentum, and with the ambition to become one of the top three mobile phone suppliers.

Sony Ericsson Mobile Communications is a 50/50 joint venture between Ericsson and Sony Corporation, founded in 2001.

In 2007, Sony Ericsson sold over 100 million hand sets, 18 percent more than the previous year, and captured market share by increasing sales of lower priced handsets in emerging market such as Latin America and Eastern Europe.

Although average selling price declined during 2007, the company maintained double-digit margins by controlling cost and focusing on internal efficiencies.

Sony Ericsson continued to set the standard in sophisticated and fashionable feature-rich phones, especially in the area of music and imaging through the use of Sony sub-brands Cyber-shot® and Walkman®. At the same time, the company increased the number of lower priced models in the portfolio, bringing compelling product propositions to the lowest priced handsets in the line-up. The Walkman® brand was extended with low and mid-end models such as the W200 and W300, and imaging models were extended with the K310 and K550.

In 2007, Sony Ericsson also announced its intention to expand its PlayNow™ content distribution application into a full-service proposition offering ring tones, full-track downloads, games, wallpapers and themes. The extended service, rebranded PlayNow™ Arena, will be fully integrated with the TrackID™ music discovery service enabling consumers to discover, try and obtain new music direct to their mobile phones. Sony Ericsson is committed to helping operators drive traffic while giving consumers access to new music and content that bring the features of their mobile phone to life.

Sony Ericsson continued to broaden its accessory portfolio. From Bluetooth headsets, car kits, music speakers and Bluetooth watches that discretely tell the owner who is calling, Sony Ericsson finds attractive ways to extend the features and user benefits of its phones.

GOING FORWARD

Sony Ericsson continues to develop a broader range of products with a further expansion into the low- to mid-range device market while maintaining margins and profitability. Its higher-end models continue to build brand awareness. In 2008, PlayNow™ Arena will deliver a wider range of content, including games, themes, and millions of music tracks and thousands of mastertones from major and independent labels. With an expanded multimedia experience, Sony Ericsson is in position to build on its strong performance in 2007.

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OUR PEOPLE AND CULTURE**—KEY TO ERICSSON'S SUCCESS.****Our core values**

Ericsson's position as a world-class company starts with our people. Respect, professionalism and perseverance are the values at the foundation of our culture. For decades, they have served as guidance in our daily work—how we relate to people and how we do business.

Among the most important components of an organization is a committed base of employees, and Ericsson today has a global workforce of 74,011 employees. During 2007, our annual measurement of employee satisfaction (measured as Human Capital Index) reached 70 percent, which puts us among elite companies—60 percent satisfaction is regarded as an area of strength.

During the past year, we have worked hard to ensure a smooth integration of the companies we have acquired. To be successful, systems and processes must be aligned. Most importantly, however, the people must know they are part of the Ericsson culture.

Furthermore, continuous personal competence development is essential for us to supply and support our customers in a demanding and changing marketplace. To ensure they have the right tools, methods and skills necessary to succeed in their roles, all employees have their own individual competence plans and update them each year.

Ericsson's Code of Business Ethics

Our Code of Business Ethics summarizes the policies and directives that govern the relationships among our internal and external stakeholders. The Code has been translated into more than 20 languages to ensure all employees understand our policies, our directives and the importance of conducting all business activities in an ethical manner.

All employees must regularly review the Code and agree to its principles.

For more details, please see Ericsson's Corporate Governance Report 2007.

Diversity at Ericsson

Ericsson's workplace is characterized by respect for individuals and their contributions to innovation, customer success and performance at all levels. Ours is an environment in which people of different backgrounds with a multitude of perspectives, values and beliefs are assets to the organization and the teams in which they interact.

Diversity is integrated and communicated throughout Ericsson. It is at the heart of our core value of "Respect," in which we emphasize equal opportunities.

Corporate Responsibility We pursue a number of activities to maximize positive social, ethical and environmental effects and to control risks.

Risks are controlled through several Company initiatives and policies, including the Code of Business Ethics, the Environmental Management System and the Code of Conduct. Benefits of our technology are promoted via the development of an energy-lean product portfolio and by highlighting the positive socio-economic contributions that communications bring to markets.

For more, please see Ericsson's Corporate Responsibility Report: www.ericsson.com/corporate_responsibility

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LETTER FROM THE CHAIRMAN OF THE BOARD**Dear Shareholder,**

While this year was a dynamic and eventful one for Ericsson, it was a disappointing time for you as an investor. Just as you suffered from the significant share price decline, so did many Ericsson employees and Board members. At least some part of this development reflects the general sentiment affecting most listed companies.

No doubt, Ericsson's third quarter result was a negative surprise to all of us, but the Company is stronger than ever, remains financially healthy and will pay a dividend the same as last year's. I am confident about Ericsson's longer-term prospects and believe the current strategy is effective and should not be changed.

When considering a more challenging market, Ericsson has a good geographic distribution and a diverse customer base, where no single country or customer represents more than 10 percent of sales. In addition, Ericsson has the operational flexibility and resources to adjust to the short-term challenges of a weaker network equipment market or increased competition, while at the same time is well positioned to continue to grow within services and multimedia.

The Company's position of strength is confirmed by independent perception studies, in which existing and potential customers consistently rank Ericsson well ahead of the competition. The same can be said of the internal perception, with the employee opinion survey showing that the Company has now achieved a level of excellence.

The success of any company depends on the leadership of its management and the quality of its workforce, which means that we must engage and retain the best talent at all levels of the Company today and for the future. It is therefore essential that executive remuneration policies and practices are competitive and in line with industry norms. A thorough assessment of the current remuneration system by external experts shows that the Company's remuneration plan is appropriate and reasonable.

During 2007, in particular, I was able to visit many Ericsson facilities around the world. It was my pleasure to meet so many highly motivated and well-qualified employees who are totally dedicated to their roles in the Company's continued vitality.

I am honored to work for you as the chairman of Ericsson—a vibrant company that plays an important role in changing the world for the better.

Thank you for your continued support.

Sincerely,

A handwritten signature in dark ink, reading "Michael Treschow". The signature is fluid and cursive, with the first name "Michael" and the last name "Treschow" clearly distinguishable.

Michael Treschow
Chairman of the Board

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BOARD OF DIRECTORS' REPORT

This Board of Directors' Report includes a discussion and analysis of Ericsson's consolidated financial statements and operational results for 2007 as well as other information. It includes forward-looking statements regarding a variety of matters, including future market conditions, strategies and anticipated results. Such statements are based on judgments, assumptions and estimates, which are subject to risks and uncertainties. Actual results could differ materially from those described or implied by such forward-looking statements. For further discussion, please see "Forward-looking Statements" and "Risk Factors."

The discussion and analysis of the results are based on Ericsson's consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of these financial statements requires management to apply accounting methods and policies that involve difficult, complex or subjective judgments and estimates based on past experiences and assumptions determined to be reasonable. The application of these judgments, estimates and assumptions affects the reported amounts of assets and liabilities and contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Under different judgments, assumptions or estimates, these amounts could differ materially.

Please see Notes to the Consolidated Financial Statements—Note C2, "Critical Accounting Estimates and Judgments," for more information about the accounting policies we believe to have the most significant effect on Ericsson's reported results and financial position. The external auditors review the quarterly interim reports, perform audits of the annual report and report their findings to the Board's Audit Committee.

The terms "Ericsson", "the Group", "the Company", and similar all refer to Telefonaktiebolaget LM Ericsson and its subsidiaries. Unless otherwise noted, numbers in parentheses refer to the previous year (i.e. 2006).

SUMMARY

Ericsson increased sales by 4 (17) percent to SEK 187.8 (179.8) billion in 2007. Organic growth (i.e. excluding acquisitions) was 8 percent in constant currencies. In an environment with a significantly weaker US dollar affecting reported sales and income negatively, Ericsson still produced one of the highest incomes of its 130-year history. Net income attributable to stockholders of the parent company was SEK 21.8 (26.3) billion. Earnings per share attributable to stockholders of the parent company was SEK 1.37 (1.65). Cash flow from operating activities was SEK 19.2 (18.5) billion. Cash flow before financing activities was SEK -8.3 (+ 3.6) billion, after investments for acquisitions of SEK 26.3 (18.1) billion.

Ericsson made good progress in strategically important areas such as:

- Securing scale advantages by significantly increasing mobile systems market share, especially in emerging markets such as China, India, Russia and Africa.
- Strengthening the Company's position within the Networks segment in fixed broadband access and transmission as well as IP routing.
- Making complementing acquisitions to strengthen Ericsson's competence and product portfolio in IP technology, IPTV and multimedia.
- Increasing market share in professional services through new managed services contracts, especially in Western Europe.
- Refinancing maturing borrowings and increasing committed credit facilities for greater financial flexibility and improved credit ratings.
- Attaining the position as the fourth largest mobile phone supplier through the Sony Ericsson joint venture.

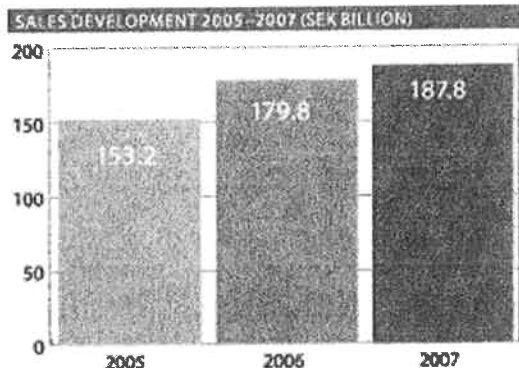
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During the year, the Company announced a significant number of new or expanded agreements to supply network equipment and/or related services to operators around the world. The aggregate value from these agreements was the highest in five years.

The Company's good progress has been somewhat tempered by a change in business mix within the Networks segment. The business mix now has a higher proportion of break-in contracts and contracts with large content of network rollout services and third party products which negatively affects gross margins. Adding to this effect is the ongoing shift to new switching technologies, where the Company is building a new footprint which has similar competitive characteristics, e.g. open bidding process, as new network buildouts.

In the third quarter, there was an unexpected shift in the business mix, with a relatively higher proportion of new network sales and a lower proportion of expansions and upgrades sales, resulting in significantly lower margins. This triggered the profit warning which caused the share price to decline significantly. Although the degree and speed of margin compression within Networks was unexpected, some degree of volatility and deviations from forecasts is likely to occur in any network equipment vendor's quarterly results.



Professional Services sales, especially managed services, showed strong growth. The scale for continued profitable growth is now well established—particularly in Western Europe.

The new Multimedia segment made good progress in establishing their operations and quickly expanding the portfolio with several acquisitions. The Company continues to invest for a leading market position in networked media and IP-based applications and services.

Sony Ericsson Mobile Communications continued its strong performance, profitably gaining market share and ending the year as the fourth largest mobile device supplier. The joint venture has strong momentum toward its ambition of achieving a top three position. Sony Ericsson also contributed significantly to Ericsson's operating income and cash flow.

During the year, the Company acquired Redback Networks, Tandberg Television and LHS as well as several smaller companies. These acquisitions have already helped Ericsson win several significant contracts. The expanded product line along with the addition of specialist resources should help the Company benefit in a number of growth areas related to IP, such as routing, multimedia applications and services.

While we believe the Company is well positioned for the longer term and remains the most profitable among its peers, there are several challenges in the shorter term. These include macroeconomic and geo-political

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risks, exposure to the US dollar, greater competition with intensified price pressure, a slower growth environment and the margin effects of an unfavorable Networks business mix. However, the Company has strategies and action plans to address these challenges.

MARKET ENVIRONMENT AND TRENDS

This was another record year for mobile communications with some 586 (500) million new subscriptions and over 1100 (980) million mobile phones shipped. As expected, overall growth of the network equipment market during the first half of the year was similar to 2006 but then unexpectedly slowed during the third quarter. Using mobile operator capital expenditures spending estimates as a proxy for the mobile network equipment market, we believe the mobile systems market grew slightly below the Company's expectation of mid-single digits.

At the end of 2007, the 3.3 (2.7) billion mobile subscriptions worldwide represented a global subscription penetration of 49 (41) percent. (Note: The number of actual individual mobile subscribers is significantly lower, perhaps some 15–20 percent but possibly more, because of inactive subscriptions and people having multiple subscriptions.)

The Company expects the number of mobile subscriptions to grow to more than 4 billion during 2009, thus creating further need for new and expanded mobile networks and corresponding professional services.

Strong growth in emerging markets

The historical price/performance trend in both mobile phones and network infrastructure has expanded the addressable market significantly, making mobile communications affordable also in emerging markets. Capital spending on mobile networks in emerging markets grew an estimated 17 percent and now represents almost half of the total market. Developed markets declined an estimated 8 percent.

More mobile subscribers and growing average MOU (minutes of use) should sustain demand for network construction and expansion in emerging markets. These projects are increasingly provided on a turnkey basis which, by its very nature, dilutes short-term margins and cash conversion because of substantial installation, systems integration and third-party content. While turnkey projects are likely to continue to represent a large proportion of networks sales, these effects should decrease as the initial phase gives way to expansions and upgrades.

CDMA operators switching to the GSM/WCDMA track

CDMA operators around the world continue to switch to the GSM/WCDMA track. During 2007, CDMA operators in Brazil and Israel made the switch and operators in India, Vietnam and New Zealand have decided to change. Even in the US, a major CDMA operator has announced plans to deploy next-generation mobile broadband networks using the long-term evolution (LTE) of the GSM/WCDMA track.

3G/WCDMA to soon overtake GSM

Although GSM continues to represent the majority of the mobile systems market, its growth is slowing as 3G/WCDMA is starting to accelerate. Demand for new GSM networks is mainly in emerging markets, especially Asia and Africa. GSM should remain the predominant technology for emerging markets in the near to mid-term, but the Company expects 3G deployments to soon start in earnest in such populous countries as Brazil, China, India and Russia. This along with the projected 3G network expansions and upgrades in more mature markets indicate that sales of 3G/WCDMA will soon overtake GSM globally.

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At year-end, there were nearly 180 million subscriptions on 197 (146) commercial 3G/WCDMA networks, of which Ericsson is a supplier to 129 (91). The High Speed Packet Access (HSPA) version of 3G/WCDMA is now deployed within 166 (96) commercial networks in 75 (51) countries. Ericsson is a supplier of 81 (46) of these networks, which represent the vast majority of HSPA users. Despite this growth, the number of potential subscribers covered by commercial 3G/WCDMA networks is less than a third of those covered by 2G/GSM services. This provides a significant opportunity for equipment suppliers to upgrade 2G networks to 3G.

LTE becoming main choice for next-generation mobile broadband

As consumer demand for higher speed mobile data services, accelerates, especially for video, operators must find ways to reduce costs and improve service performance to meet this demand. Unlike WiMax or Ultra Mobile Broadband (UMB), two alternative radio technologies, LTE has the advantage of providing an evolutionary path that leverages existing GSM/WCDMA as well as CDMA networks. The Company believes that an LTE-based network offers more compelling life-cycle economics to an operator than alternative technologies. This is the main reason Ericsson has chosen not to invest in WiMax or UMB.

The Company's commitment to, and substantial R&D investment in, LTE has received strong support from the largest operators in the industry. Verizon and Vodafone, joint owners of U.S. based Verizon Wireless, announced plans to deploy next-generation mobile broadband networks using LTE. They have a coordinated trial plan for LTE that begins in 2008 with Ericsson as one of the suppliers. More recently, NTT DoCoMo announced that they had selected Ericsson to supply LTE-based network infrastructure in Japan. In addition, China Mobile and AT&T Wireless recently announced that they would follow the LTE-path. Ericsson is currently a major supplier to both of these operators. We are encouraged by this strong momentum and agree with the Company's assertion that LTE will most likely be the predominant technology for next-generation mobile broadband networks.

Bundling and flat-rate tariffs

Operator investments in fixed networks have been driven by the need to replace lost revenues from voice that may have been captured by mobile or VoIP (Voice over IP) as well as from increased competition amongst operators. A well established strategy for customer retention has been the so called triple-play (i.e. bundling of voice, Internet and television), sometimes in conjunction with flat-rate pricing. This has accelerated the conversion to all-IP broadband networks with increased deployments of broadband access, routing and transmission along with next-generation service delivery and revenue management systems.

Similarly, mobile operators are also turning to bundling and flat-rate pricing, especially when combining mobile voice with mobile broadband. This trend is expected to accelerate with the introduction of mobile TV. In developing markets, voice and text messaging remain the primary services. Since there are limited fixed networks available in such markets, mobile broadband will become increasingly important as the demand for Internet access grows.

In such a converged world with more and more IP related services, the demand for systems integration services is expected to continue to grow strongly.

Operator consolidation

Operator consolidation continues in several regions. In the Americas, consolidation has reduced the number of operators by more than half. In Europe, mergers continue as well as other types of combinations, such as network sharing and outsourcing of network operations. In other regions, operator consolidation has led to the emergence of rapidly growing pan-regional operators, particularly in the CEMA markets (Central and Eastern Europe, Middle East and Africa).

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Although operator consolidation does not impact the underlying growth of the mobile market, it often disrupts market development by creating delays in procurement, reducing total capital expenditures, while increasing pricing pressure on vendors as the combined entities have stronger negotiating power.

Network sharing

The overall impact of network sharing will ultimately be neutral for mobile equipment vendors. To a certain extent, short-term disruption of capital expenditure plans or re-negotiation of contracts with the network sharing companies may be somewhat compensated by increased sales of professional services, especially network integration and managed operations. Over the longer term, the majority of savings will come from shared plant and property as the equipment has to be dimensioned for the peak traffic demand of the combined networks.

Good growth opportunities for managed services and systems integration

Compared with network deployment services, which tend to grow more or less in line with the equipment market, demand for managed services (i.e. network operation and hosting services) as well as systems integration is growing more rapidly. The potential market for network operation services is larger than the potential market for network equipment and related deployment services. A mature operator is estimated to typically spend some 5-6 percent of annual sales on equipment to build a network, but spends approximately 10-12 percent of sales to operate that network. More than 75 percent of network operation expenses today are believed to be handled in-house by operators but they are increasingly being outsourced as operators realize the competitive advantages and potential cost savings. Consequently, the market for such managed services is expected to show good growth prospects going forward.

Network development increasingly driven by non-voice traffic

Rather than enhancing their legacy voice-centric installed base, the Company expects operators to increasingly target spending on next-generation communications equipment that will raise revenues by enabling new services and/or reduce operating costs. Therefore, Ericsson believes the following key technologies will drive industry growth for the next several years: mobile broadband; IP and multi-service switching; fixed broadband access and IPTV; VoIP and IP multimedia subsystems (IMS); and metro optical and radio transmission. Finally, Ericsson expects operators to accelerate the transition from legacy technologies such as TDM (circuit) switching and ATM (packet) in favor of IP- (Ethernet) based technologies for both switching and transmission; all areas which the Company continues to invest heavily in.

Notwithstanding the positive trends in mobile broadband, with rapidly increasing data traffic, market conditions for mobile network equipment are expected to remain challenging in developed markets. Ongoing operator consolidation, especially in Western Europe, where the technology shift for more efficient networks, as well as changing regulations, such as price caps for roaming and lower call termination fees, is affecting operator willingness and need to increase network investments in the near term. This trend is most pronounced for highly penetrated GSM networks, in which demand for upgrades and expansions has rapidly diminished as operators spend more to expand and enhance their 3G networks.

Price/performance developments create opportunities as well as challenges

A continuously improving price/performance ratio driven by technological development enlarges the mobile communications market by making the cost of services affordable to more and more of the world's population. But it can also hurt vendors that do not stay ahead of the technology cost curve. Scale is essential to Ericsson's ability to sustain the large R&D program needed for technological leadership. Moore's Law implies that the processing speed, capacity and capabilities of digital electronics will improve exponentially at an ever lower cost

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and size. This affects communications technology as it does other areas of digital technology. Normal price erosion and continuous improvements in spectrum utilization have historically been offset by unit volume increases.

Technology shift affecting product mix

Since operators can build and operate softswitch-based networks much more economically compared to a monolithic circuit switch, operators are motivated to replace the circuit switch with softswitching rather than to continue spending on older technology. This trend is accelerating, and softswitches now represent the vast majority of shipped capacity but only account for slightly more than half of Ericsson's switch sales. This growth is masked by the decline in legacy circuit switching sales. Furthermore, since these are initial deployments, the margin profile is that of new business but is creating an installed base for future sales. This shift, like all others, will eventually reach a steady state and the underlying growth will become visible.

Evolving competitive landscape

The need for scale in R&D, production and support has led to consolidation among our competitors. This could have challenged Ericsson's scale advantage within mobile networks. The Company chose to defend its competitive position through organic growth rather than with disruptive and high risk megamergers. The rapid market share gains indicate the success of this strategy but it has come at a certain cost, as price levels for some contracts have been very competitive. With a scale advantage reestablished, the Company will now focus more on capitalizing on these gains and its leading position to derive more follow-on sales of expansions and upgrades from the enlarged installed base.

Price competition for mobile networks—for winning new contracts and strategically increasing market share for a scale advantage—was intense again this year, especially against Chinese competitors. Although these competitors have increased their market share, especially in China, Ericsson has also increased its market share, including in China.

New radio spectrum being allocated

Much needed radio spectrum is being allocated to mobile communications as frequency bands previously used for analog TV broadcasting are made available. Late in the year, Sweden was one of the first markets to make the change. In the US, auctions are scheduled for the first half of 2008. Other markets are expected to follow during the coming years. In addition, a number of mobile operators have started to refarm their existing spectrum in the 850/900 MHz bands for 3G/WCDMA buildouts, where allowed by regulators. Due to superior radio propagation characteristics at lower frequencies, an operator can potentially build a network with significantly fewer cell sites for a much lower total cost of ownership compared with 1900/2100 MHz spectrum.

Global economic development

Although the Company expects the market conditions of 2007 to continue during 2008, the most recent economic outlook from the Organization for Economic Cooperation and Development (OECD) forecasts a slowdown in real GDP within the 30-nation OECD area but a continued "brisk growth" in such emerging economies as Brazil, China, India, and Russia. However, while we agree that emerging markets contribute significantly to world trade growth, we are doubtful if these emerging economies are resilient enough to be unaffected in the event of a material slowdown in the US and major Western European markets.

We do not want to postulate a view on how the global economy will develop, but we believe that if an economic recession should occur it would have a less pronounced impact on mobile networks demand than in the

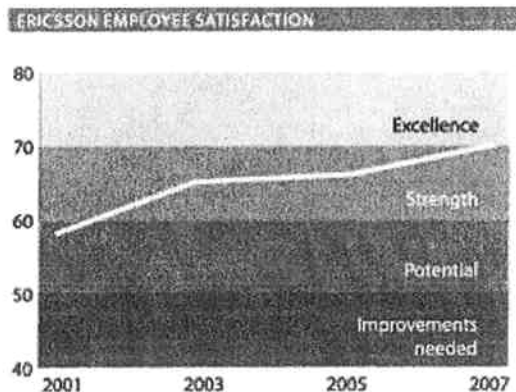
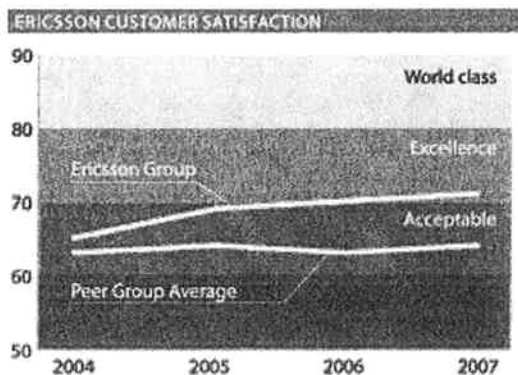
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recession of 2001–2003. Operator balance sheets are much healthier now and there is significantly greater geographic diversification where emerging markets now account for a much larger and faster growing portion of network investments. In addition, mobile operator capital expenditure spending is not at unsustainably high levels and networks are well utilized unlike during the last market downturn.

GOALS AND RESULTS

Our ultimate goal is for the Company to generate growth and a competitive profit that is sustainable over the longer term. Ericsson aims to be the preferred business partner to its customers; especially to the world's leading network operators by being the market and technology leader for the supply and operation of network infrastructure. As the market leader, the Company uses economies of scale to develop superior products and services that provide competitive advantages. In addition, when Ericsson's network equipment and associated services are combined with its multimedia solutions and mobile handsets from the Sony Ericsson joint venture, the scope of Ericsson's operations extends to complete end-to-end telecommunication solutions.



We monitor the Company's performance according to three fundamental metrics: customer satisfaction, employee satisfaction and value creation. We believe that highly satisfied customers along with empowered and motivated employees help to assure an enduring capability for competitive advantage and value creation. The Company's objective is to have a leading market share, a faster than market sales growth, a best-in-class operating margin and a healthy cash conversion.

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Customer satisfaction

Every year, a customer satisfaction survey is independently conducted by the CFI Group, in which approximately 9,000 employees of some 380 fixed and mobile operators around the world are polled to assess their satisfaction with Ericsson compared to its main peers. This year's results show a continued upward trend and Ericsson was ranked as excellent while the Company's peers were ranked on average as acceptable.

Employee satisfaction

Every year, an employee survey is independently conducted by Research International. In 2007, 90 (90) percent of Ericsson employees participated in this survey. The results show a continued upward trend, especially in the Human Capital Index, which measures employee contribution in adding value for customers and meeting business goals. Ericsson has now reached a level considered excellent by external benchmarking.

Value creation

Although margins fell below the levels of the last several years, the Company strengthened its market position and continues to perform better than its peers. A strong balance sheet, flexible operational model and a strengthened industry-leading position provide the means for handling any near-term pressure on margins. In the longer term, the increased market share and footprint enlarges the opportunity for future sales of expansions and upgrades.

Management has several metrics by which they measure the Company's progress relative to their ambitions:

- Increase sales at a rate faster than the market growth.
As previously mentioned, we believe the mobile systems market grew slightly below the Company's expectation of mid-single digits in USD terms. Ericsson's mobile systems sales increased by 9 (15) percent in constant currencies, the Professional Services market showed good growth and Ericsson's Professional Services sales grew by 19 percent in constant currencies, compared with an estimated market growth of approximately 12-14 percent;
- Deliver best-in-class operating margin, i.e. better than the main competitors.
With an operating margin of 13 (17) percent for the Group excluding Sony Ericsson, Ericsson's operating margin continued to be the highest among its main competitors;
- Generate cash conversion of over 70 percent.

The cash conversion for the full year was 66 (57) percent. Reflecting an increased focus on cash flow, a longer-term cash conversion target of over 70 percent was introduced and communicated during 2007. The Company also communicated that this target was unlikely to be achieved shorter term, mainly due to continued expansion of large turn-key projects in emerging markets and demand from customers for more favorable payment terms. During 2007, the Company also launched a Strategic Focus Area addressing cash flow to secure continuous improvements in our sourcing, supply and sales processes.

The cash conversion is expected to gradually improve as a result of this program and as the growth in turn-key projects slows down to be more in line with the Group's overall growth.

Sales

Group sales grew 4 (17) percent, driven by higher professional services sales. Acquisitions contributed an estimated 1.5 percentage points. With the average USD exchange rate some 9 percent lower, fluctuations in foreign exchange rates had a rather significant negative effect on reported sales as approximately 50 percent of sales were USD related.

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SALES PER REGION AND SEGMENT 2007

<u>SEK billion</u>	<u>Networks</u>	<u>Professional Services</u>	<u>Multimedia</u>	<u>Total</u>	<u>Percent change</u>
Western Europe	28,085	17,287	7,313	52,685	-1%
CEMA ¹⁾	36,435	8,305	3,921	48,661	5%
Asia Pacific	43,101	9,061	2,467	54,629	14%
Latin America	12,972	4,274	1,137	18,383	12%
North America	8,392	3,965	1,065	13,422	-15%
Total	128,985	42,892	15,903	187,780	4%
Share of total	69%	23%	8%	100%	
Percent change	1%	16%	14%	4%	

1) Central and Eastern Europe, Middle East and Africa

Segment Networks

	<u>2007</u>	<u>2006</u>	<u>Percent change</u>
Sales	128,985	127,518	1%
of which network rollout	18,507	16,410	13%
Operating income	17,398	21,722	-20%
Operating margin	13%	17%	
EBITDA margin	19%	22%	

Mobile network buildouts, especially in emerging markets, represented the majority of sales. Sales of related network rollout services grew 13 percent to SEK 18.5 billion during 2007, reflecting increased demand for turnkey projects and a larger market share in mobile systems. The Company reported mobile systems sales growth of 3 percent; however, using constant currencies, management estimates that such sales grew by approximately 9 percent.

Networks' business continues to grow where network buildouts and break-in contracts are predominant and price competition is most intense. Such lower gross margin sales have been historically balanced by sales of products with a typically higher gross margin. Ericsson's market share gains, including many large turnkey projects, combined with relatively lower sales of upgrades and expansions has unfavorably altered the business mix resulting in lower margins.

The ongoing technology shift from circuit-switched core networks to softswitch solutions has also negatively affected networks sales and margins. With an economic life of 10-12 years, this transition would reasonably be expected to take a number of years. However, the economics of the newer technology is such that operators are increasingly replacing their legacy switch nodes rather than continuing to invest in them. Bidding for the replacement opens the installed base to competition, but the Company is building an even larger installed base by capturing an increased market share. However, the growing sales of softswitches are currently insufficient to offset the more rapid sales decline of legacy circuit switching expansions and upgrades.

Price competition remains intense and has also affected margins, but Network's gross margin development has been more affected by the business mix shift. The Company's success in replacing competitors' installed base with certain operators to more rapidly gain market share has also been a significant part of this development. The Company has in some cases offered to share in the cost of the change-out with the operator for the opportunity to enlarge the installed base.

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Sales of optical and microwave transmission systems to fixed as well as mobile operators showed good growth. Overall sales of fixed networks, however, grew in line with the market. The Company's ambition is to grow faster than the market. In support of this, the Company has significantly strengthened its offering by combining Ericsson's own products with those acquired with Redback Networks and Entrisphere.

Furthermore, Ericsson is using Redback as the platform to combine and focus all of its IP efforts under one organization and leadership headquartered in Silicon Valley. We believe this concentration of resources will be sufficient for Redback to seriously challenge the market leaders.

The alignment of Ericsson's and Redback's sales channels is progressing according to plan, but with some dampening effects on Redback's sales growth during the transition. Lower sales of domestic legacy products in the US have been offset by increased sales of new products internationally. In combination with Ericsson, Redback finished the year with 87 new customers in 68 countries and now counts 15 of the top 20 fixed network operators and three of the top mobile operators amongst its customer base of more than 300 operators. We remain optimistic regarding growth opportunities for all-IP networks with IP routing, IMS, broadband access and transmission. The Company continues to invest in these areas, with the ambition to be the first vendor to be able to converge fixed and mobile networks on one platform—offering operators significant savings and new revenue opportunities.

Segment Professional Services

	2007	2006	Percent change
Sales	42,892	36,813	16%
of which managed services	12,172	9,491	28%
Operating income	6,394	5,309	20%
Operating margin	15%	14%	
EBITDA margin	16%	15%	

Professional Services sales were particularly encouraging, growing at 16 percent to SEK 42.9 billion. Growth measured in local currencies amounted to 19 percent compared with an estimated market growth of some 12–14 percent. Managed services sales grew by 28 percent to SEK 12.2 (9.5) billion, as the Company continued to win contracts for network operations and hosting services. At year end 2007, Ericsson-managed network operations served approximately 185 (100) million users.

Operating margin is stable in the mid-teens despite the higher proportion of managed services. This is mainly due to successful transformation of operations undertaken to the Ericsson ways of working and continuous cost optimization of the managed services businesses. A large managed services agreement in the UK has been adjusted and the scope has been somewhat reduced to accommodate network sharing. This will affect managed services sales but the Company does not expect margins to be affected.

Ericsson won several breakthrough managed services deals during the year, including a pan-European multi-vendor spare parts management agreement with Vodafone, managed operations for parts of T-Mobile's network in the UK, and managed operations for Deutsche Telekom's transmission network in Germany. In addition, more than 1,000 systems integration contracts were signed during the year, including a multivendor network management solution for Wataniya Algeria, IT development and maintenance of business support solutions with Telecom Italia, and a Slovakia border control solution as part of the Schengen boundary expansion.

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Segment Multimedia

	<u>2007</u>	<u>2006</u>	<u>Percent change</u>
Sales	15,903	13,877	14%
Operating income	-135	714	
Operating margin	-1%	5%	
EBITDA margin	4%	6%	

Sales growth for the newly formed segment amounted to 14 percent, driven mainly by acquisitions. Organic growth was 2 percent and reflects a challenging comparison to prior year's results. The segment is operating on a more or less break-even level as investments to build a leading position in networked media and messaging continues. The ambition is to be the key enabler for new services and applications based on IPTV, IMS and content aware billing solutions.

This was a year of direction setting, organizing existing strengths and supplementing these areas with acquisitions. With the exception of enterprise solutions, sales opportunities for Multimedia show a positive trend, and the integration of the acquisitions are well on track. Multimedia solutions made good progress with new business development, especially for mobile platforms and revenue and service management systems. Ericsson is now a mobile platform supplier to nineteen handset manufacturers, including 4 of the top 10. However, Sony Ericsson continues to account for the majority of the volumes.

This year was a transition year for Tandberg Television, as the long process to complete the acquisition disrupted their momentum early in the year. However, since completion of the acquisition, Tandberg has shown progressive sales growth and has now regained their momentum as market leader. Entering 2008, the Company believes Tandberg is well positioned in terms of operational efficiency, new product pipeline and sales momentum. Tandberg is a key element of Ericsson's IPTV ambitions.

A number of key deals and partnerships were closed in Multimedia. Ericsson partnered with Turner Broadcasting to develop Turner's content for Internet, broadcast news and entertainment, including CNN International and the Cartoon Network for mobile multimedia environments. A global partnership agreement was signed with Endemol International B.V. to develop interactive TV and user-generated content via Ericsson's Me-On-TV solution.

The multimedia market is quickly evolving and converging: industries, (telecom, media and internet), technologies and payment options. End-to-end revenue management solutions must be able to handle convergent technologies including IP-based broadband services, a variety of business models and partner relationships, as well as be payment-option agnostic. Ericsson acquired LHS to form a strong constellation of prepaid and postpaid solutions ready to immediately capture this opportunity. Ericsson's leadership in real-time charging and mediation, together with the leading billing and customer care solutions of LHS, make the combined companies a leading player in revenue management and significantly strengthen Ericsson's overall multimedia offering.

Entering 2008, the Multimedia segment is now established and focus will continue on supporting service providers to be able to offer a superior user experience to their customers.

Segment Phones

See Sony Ericsson Mobile Communications under Partnerships and Joint Ventures.

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Regional Overview

Ericsson's sales distribution between developed and developing (emerging) markets within the Networks business continues to shift toward emerging markets, which now accounting for 52 (46) percent of sales which indicates a growth of some 14 percent in these markets. Considering that most sales in emerging markets are in some way linked to the USD, underlying growth in constant currencies was even more significant.

Sales in market areas Asia Pacific, CEMA and Western Europe are of similar volumes, but the business mix differs significantly. Asia Pacific is mainly driven by new networks and expansion of network coverage to accommodate strong subscriber growth, whereas sales growth in Western Europe is driven by managed services and higher demand for mobile broadband and broadband transmission. Despite continued buildout of 3G along with HSPA upgrades, overall sales of mobile systems in Western Europe declined as operators invested less in GSM. The CEMA region is more like Asia Pacific, although Central and Eastern Europe are maturing rapidly in terms of GSM subscriber penetration. The Americas are gradually returning to growth, which is driven mainly by 3G deployments and professional services. Asia Pacific became the largest region in terms of sales, with turnkey network construction projects as the main growth contributor. GSM remains the predominant technology in the region, but 3G deployments have begun in several countries with additional licenses expected to be issued in additional countries during 2008. Similarly, 3G deployments are underway or about to begin in emerging markets such as Russia, Brazil and India. We continue to await China's decision on 3G deployments, but demand for GSM continues in the meantime. Although domestic suppliers have become more competitive and increased their share, Ericsson has maintained its market position in China. The Company expanded its leading position in rapidly growing India, while political unrest in certain markets negatively affected sales particularly during the second half of the year.

Margins and operating expenses

The Company's ambition is to generate a competitive return on sales. With best-in-class operating margins of 16 (20) percent and 13 (17) percent excluding Sony Ericsson, the Company continued to perform well, albeit at lower than recent year's levels due to the development within Networks previously described. Professional Services' operating margins were stable at 15 (14) percent even with the strong sales growth of managed services. Multimedia showed mixed results over the year and in general is performing at a break-even level despite the large R&D investments in IPTV and IMS. Sony Ericsson contributed 3.8 (3.2) percentage points to the operating margin.

Operating margin was lower as a result of Networks' gross margin facing unexpected pressure during the second half of the year. Operating expenses as a percentage of net sales increased slightly. Some of the acquired companies had a higher proportion of operating expenses relative to sales. The Company also increased sales and marketing expenses to support the integration and personnel training of Ericsson's sales and marketing staff to support the broader product portfolio.

With a slower market growth and increased pressure on margins, the Company will need to make larger than normal cost reductions. Therefore, an acceleration of operational excellence (i.e. process efficiency) activities will be undertaken. Cost savings of SEK 4 billion will be made with full effect in 2009. All parts of the business will be affected. The main focus areas are SG&A, sourcing, supply and service delivery. The one-time charges are estimated to be SEK 4 billion, which will be taken as each activity is decided.

Other income statement items

Ericsson's 50 percent share of Sony Ericsson Mobile Communications' pre-tax income increased from SEK 5.9 billion in 2006 to SEK 7.1 billion in 2007.

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Other operating income declined to SEK 1.7 billion from SEK 3.9 billion in 2006, when Ericsson made a capital gain upon the divestment of the Defense business.

The financial net decreased slightly from SEK 0.2 billion in 2006 to SEK 0.01 billion in 2007 due to reduced cash and increased borrowings.

Income after financial items was SEK 30.7 (36.0) billion.

Net income attributable to stockholders of the Parent Company decreased to SEK 21.8 (26.3) billion. Diluted earnings per share were SEK 1.37 (1.65).

Balance Sheet

Total assets amounted to SEK 245.1 (214.9) billion at year-end. The main items contributing to the 14 percent increase were assets related to acquisitions and higher trade receivables, reflecting high seasonal business activity in the last quarter of the year due to a higher completion rate of large projects, especially in markets with longer payment terms.

Deferred tax assets decreased by SEK 1.9 billion net to SEK 11.7 billion. Utilization of tax loss carryforwards was SEK 2.5 billion while acquisitions added SEK 2.0 billion during the year.

Net cash decreased from SEK 40.7 billion to SEK 24.3 billion, mainly as a result of acquisition and build up of working capital for turnkey projects.

Maturing borrowings were refinanced. Long-term committed credit facilities were increased from USD 1 billion to USD 2 billion to improve flexibility to manage volatility if necessary. Payment readiness was 64.7 (67.5) billion.

Equity increased to SEK 135 (120.9) billion and the equity ratio decreased to 55.1 (56.2) percent.

Return on Capital Employed (ROCE) was 20.9 percent compared to 27.4 percent in 2006.

RETURN ON CAPITAL EMPLOYED 2005-2007

	Percent
2005	28.7
2006	27.4
2007	20.9

Off balance sheet arrangements

There are currently no material off-balance sheet arrangements that have or would be reasonably likely to have a current or anticipated effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Cash flow

Cash flow from operating activities was SEK 19.2 (18.5) billion, of which SEK 12 (11) billion was generated in the fourth quarter. The strong ending of 2007 is mainly due to the decrease in working capital as a result of a high completion rate for turnkey projects. The cash conversion improved from 57 percent in 2006 to 66 percent in 2007. Net operating assets increased by SEK 10.1 billion, reflecting continued working capital build-up in turnkey projects and particularly in trade receivables (which increased by SEK 9.4 billion).

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The scope of a managed services agreement was renegotiated to allow for network sharing. This resulted in advance payments of SEK 3.2 billion, of which half affected the operational cash flow and the other half affected financing activities.

Ericsson's share of Sony Ericsson's operating income before tax for 2007 was SEK 7.1 billion and SEK 3.9 billion was received as dividend during the year.

CASH FLOW

<u>SEK billion</u>	<u>2007</u>	<u>2006</u>	<u>2005¹⁾</u>
Income reconciled to cash	29.3	32.5	35.1
Changes in operating net assets	-10.1	-14.0	-10.0
Cash flow from operating activities	19.2	18.5	25.1
Cash flow from investing activities	-27.5	-14.9	1.0
Cash flow before financing activities	-8.3	3.6	26.1
Cash flow before financing activities adjusted for acquisitions/divestments and short-term investments	14.4	12.4	19.6
Cash flow from financing activities	6.3	-15.4	-6.1
Cash conversion ²⁾	66%	57%	72%

1) Excluding pension trust fund (Sweden).

2) Cash flow from operating activities divided by net income reconciled to cash.

Cash flow from investing activities was SEK -27.5 (-14.9) billion, of which SEK -26.3 (-18.1) billion were used for acquisitions, SEK -4.7 (3.0) billion for capital expenditures and other investment activities and SEK 3.5 (6.2) billion in short-term investments. Cash flow before financing activities adjusted for the major acquisitions/divestments as well as the short-term investments amounted to 14.4 (12.4) billion. Cash flow from financing activities was SEK 6.3 (-15.4) billion and mainly consisted of a bond issue in the second quarter of SEK 11.1 billion less shareholder dividends of SEK 7.9 billion. In certain countries, there are legal or economic restrictions on the ability of subsidiaries to transfer funds to the Parent Company in the form of cash dividends, loans or advances. Such restricted cash amounted to SEK 5.8 (5.8) billion.

Inventory Turnover (ITO) and Days Payable were improved somewhat compared to 2006. However, Days Sales Outstanding (DSO) increased due to growth in turnkey projects and in markets with longer payment terms. Efforts to further improve capital efficiency and cash conversion will continue.

WORKING CAPITAL EFFICIENCY MEASURES

	<u>Target</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Days Sales Outstanding (DSO)	< 90	102	85	81
Inventory Turnover (ITO)	> 5.5	5.2	5.2	5.0
Payable Days	> 60	57	54	52

Capital expenditures

We continuously monitor the Company's capital expenditures and evaluate whether adjustments are necessary in light of market conditions and other economic factors. Capital expenditures are typically investments in test equipment used to develop, manufacture and deploy network equipment. However, the increase in capital expenditures from 2006 to 2007 came mainly from investments needed to support the rapidly growing services business and establish stronger presence in certain markets.

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The following table summarizes annual capital expenditures during the five years ended December 31, 2007:

CAPITAL EXPENDITURES 2003-2007

<u>SEK billion</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Capital expenditures	4.3	3.8	3.4	2.5	1.8
of which Sweden	1.3	1.0	1.0	1.1	1.1
as percent of net sales	2.3%	2.2%	2.2%	1.9%	1.5%

Excluding acquisitions, we do not expect capital expenditures in relation to sales to differ significantly in 2008, remaining at roughly 2 percent of sales. In addition to normal capital expenditures, there are commitments to repay SEK 3.1 billion of debt. With a net cash position at year-end of SEK 24.3 (40.7) billion, we expect the Company to be able to cover all capital expenditure plans and customer financing commitments for 2008 by using funds generated from operations with no additional borrowing required.

We believe the properties that the Company now occupies are suitable for its present needs in most locations. As of December 31, 2007, no material land, buildings, machinery or equipment were pledged as collateral for outstanding indebtedness.

CREDIT RATINGS

Both Moody's and Standard & Poor's (S&P) credit rating agencies raised Ericsson's credit rating during 2007, although S&P lowered their outlook from stable to negative on November 27, 2007. At year-end, ratings of Ericsson's creditworthiness were Baa1 for Moody's and BBB+ for S&P, both of which are considered to be "Investment Grade."

ERICSSON CREDIT RATINGS YEAR END 2005-2007

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Moody's	Baa1	Baa2	Baa3
Standard & Poor's	BBB+	BBB-	BBB-

RESEARCH AND DEVELOPMENT

A robust R&D program is essential to Ericsson's competitiveness and future success. With most R&D invested in mobile communications network infrastructure, Ericsson's program is one of the largest in the industry. The efficiency of the R&D activities has been improved, enabling a faster time to market for products and increased investment in new areas such as multimedia solutions while decreasing R&D as a percentage of sales. The Company reduced R&D lead time more than 25 percent this year and have reached their target of a 50 percent reduction in time to market one year ahead of plan.

R&D PROGRAM

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Expenses (SEK billion)	28.8	27.5	24.1
As percent of sales	15.4%	15.3%	15.7%
Employees within R&D at December 31 ¹⁾	19,300	17,000	16,500
Patents	23,000	22,000	20,000

1) The number of employees and patents are approximate.

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During 2008, R&D expenses, including the amortization of intangible assets from acquisitions, are expected to remain roughly the same in absolute terms as for the annualized run rate during the second half of 2007, i.e. ~SEK 30–31 billion. Currency translation effects could affect the actual level of reported spending.

PARTNERSHIPS AND JOINT VENTURES

During 2007, Sony Ericsson Mobile Communications reported strong unit volume and sales increases, which caused their income before tax to improve significantly from last year. The improved performance is mainly the result of focusing on imaging, music and enterprise phones, while at the same time increasing the number of lower priced models. Sony Ericsson's ambition is to achieve continued profitable growth through the combination of technologies and expertise from their parent companies to better leverage their own capabilities.

Each parent company was paid a dividend of EUR 424 million. The joint venture results are accounted for in accordance with the equity method. For more information, see also Notes to the Consolidated Financial Statements—Note C1, "Significant Accounting Policies".

SONY ERICSSON RESULTS 2005–2007

	<u>2007</u>	<u>Percent change</u>	<u>2006</u>	<u>2005</u>
Units sold (millions)	103.4	38%	74.8	51.2
Sales (EUR m.)	12,916	18%	10,959	7,268
Income before tax (EUR m.)	1,574	21%	1,298	512
Net income (EUR m.)	1,114	12%	997	350
Ericsson's share of Income before tax (SEK billion)	7.1	21%	5.9	2.3

For more information on transactions with Sony Ericsson, please see also Notes to the Consolidated Financial Statements—Note C30, "Related Party Transactions".

ACQUISITIONS AND DIVESTMENTS

Acquisitions or divestments completed during 2005, 2006 or 2007 are described in the tables "Acquisitions 2005–2007" and "Divestments 2005–2007".

In total, the company has spent SEK 42.4 billion net in acquisitions/divestments during the last three years (2005–2007).

Acquisitions were made for SEK 26.3 billion in 2007, SEK 18.1 billion in 2006 and SEK 1.2 billion in 2005. Divestments were made for SEK 0.1 billion in 2007, SEK 3.1 billion in 2006 and SEK 0.03 billion in 2005. For more information, please see Notes to the Consolidated Financial Statements, Note C26 "Business Combinations".

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ACQUISITIONS 2005–2007

Company	Description	Date
HyC	Spanish company with around 110 employees that specialize in design and systems integration of IPTV networks.	Dec 30, 2007
LHS	German provider of post-paid billing and customer care systems for wireless, wireline, and IP telecom markets. Purchase price SEK 2.7 billion.	Oct 1, 2007
Druitt	Swedish company, with around 85 employees, that develops Mobile Service Delivery Platform which enables mobile operators to mobilize and charge for any content to any device, over any delivery channel.	June 28, 2007
Tandberg Television	Norwegian global supplier of products for digital TV solutions, including IPTV, HDTV, video on demand, advertising on demand and interactive TV applications. Purchase price SEK 9.8 billion.	May 1, 2007
Mobeon	Swedish company, with around 130 employees that develop IP messaging software technology.	Mar 15, 2007
Entrisphere	US-based company, with around 140 employees, that develops gigabit passive optical network (GPON) technology for fixed broadband access, i.e. FTTx.	Feb 12, 2007
Redback Networks	US supplier of multi-service routing platform for broadband services such as VoIP, IPTV and Video On-Demand. Purchase price SEK 14.8 billion.	Jan 23, 2007
Distocraft Oy	Assets of Finnish company specialized in software development and with around 40 employees that develop mobile network performance management systems.	Aug 31, 2006
Netwise	Swedish-based supplier of software for presence management, team collaboration, integration of mobile phones, IP telephony and multimedia for enterprise.	Aug 11, 2006
Marconi assets	Certain assets related to broadband access, optical and radio transmission, data networks and service layer were acquired from UK-based Marconi. Purchase price SEK 19.4 billion.	Jan 23, 2006
TUSC	Australian company, with around 80 employees, specializes in systems integration for telecommunications, utilities and enterprises.	Nov 24, 2005
Axxessit	Norway-based technology company that supplies multi-service next-generation SDH metro transmission equipment.	Sept 13, 2005
Teleca OSS	Swedish company with around 40 employees, supplier of service assurance, network management and operator charging solutions as well as other tools to improve the quality of operator services toward consumers.	July 4, 2005
NetSpira Networks	Spanish company with around 20 employees, that provides software for content aware and event based charging.	June 3, 2005
Ericsson S.p.A.	In the first quarter 2005, a Residual Public Offer was launched for the remaining shares in Ericsson S.p.A. in Italy and subsequently Ericsson S.p.A. was delisted from the Milan Stock Exchange. Purchase price SEK 0.6 billion.	1Q 2005

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DIVESTMENTS 2005–2007

Company	Description	Date
Ericsson Microwave Systems (EMW)	Swedish provider of radar, command and control systems for defense applications. Cash flow effect SEK 3.1 billion.	Sept 1, 2006
Shares in Anoto	Swedish company that licenses a digital pen and paper technology.	May 30, 2005

MATERIAL CONTRACTS AND CONTRACTUAL OBLIGATIONS

Ericsson is party to certain agreements which include provisions that may take effect, be altered or cease to be valid due to a change in control of the Company, as a result of a public takeover offer. Such provisions are not unusual for certain types of agreements such as joint-venture agreements, financing agreements and certain license agreements. However, none of the agreements that Ericsson currently has in effect would entail any material consequences due to a change in control of the Company.

Material contractual obligations are outlined in the following table. Operating leases are mainly related to offices and production facilities. Purchase obligations are related mainly to outsourced manufacturing, R&D and IT operations and to components for our own manufacturing. Except for those transactions previously described in this report, Ericsson has not been a party to any material contracts over the past three years other than those entered into during the ordinary course of business.

CONTRACTUAL OBLIGATIONS 2007

(SEK million)	Payment due by period				
	Total	<1 Year	1–3 Years	3–5 Years	≥5 Years
Long-term debt ¹⁾²⁾	23,659	3,625	7,968	3,630	8,436
Capital lease obligations ³⁾	1,875	171	284	210	1,210
Operating leases	11,895	3,147	3,708	2,308	2,732
Other non-current liabilities	1,714	102	132	147	1,333
Purchase obligations	9,376	9,376	—	—	—
Trade Payables	17,427	17,427	—	—	—
Commitments for customer financing ⁵⁾	4,185	4,185	—	—	—
Total	70,131	38,033	12,092	6,295	13,711

1) Including interest payments.

2) See also Notes to the Consolidated Financial Statements—Note C20, “Financial Risk Management and Financial Instruments”.

3) See also Notes to the Consolidated Financial Statements—Note C27, “Leasing”.

4) The amounts of purchase obligations are gross, before deduction of any related provisions.

5) See also Notes to the Consolidated Financial Statements—Note C14, “Trade Receivables and Customer Financing”.

CORPORATE GOVERNANCE

In accordance with the Swedish code of corporate Governance, a separate Corporate Governance Report including an Internal Control section has been prepared. There have been no amendments or waivers to Ericsson’s Code of Business Ethics for any Director or member of management.

A separate Corporate Responsibility Report is also published, addressing Ericsson’s activities regarding social responsibility, environmental and human resource issues.

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The corporate bodies involved in the governance of Ericsson are:

- The shareholders through voting in annual general meetings or extraordinary general meetings and their appointed Nomination Committee for nomination of members of the Board and auditors
- The Board of Directors and its Finance, Remuneration and Audit Committees
- The President and CEO
- The management
- The external auditors

The Board of Directors works according to Work Procedures that outlines rules regarding the distribution of tasks between the Board and its Committees as well as between the Board, its Committees and the President and CEO. The external auditors examine the financial reports and assess the management by the Board of Directors and the President and CEO.

Ericsson's operations are governed by its Ericsson Group Management System, consisting of:

- Ericsson's organization, with its segregation of duties distribution of work and delegation of authority.
- Group policies and directives, including a code of Business Ethics.
- Group-wide standard business processes, including processes for strategy and target setting as well as operational processes and processes for accounting, financial reporting and disclosure.

For more information regarding the Board of Directors and its committees, please see the Corporate Governance Report.

Changes to the Board membership

The Board of Directors is elected each year at the Annual General Meeting for the period until the next Annual General Meeting. At the Annual General Meeting on April 11, 2007, the following board members were re-elected: Michael Treschow as Chairman of the Board, Marcus Wallenberg and Sverker Martin-Löf as Deputy Chairmen, Sir Peter L. Bonfield, Ulf J. Johansson, Nancy McKinstry, Börje Ekholm, Katherine Hudson, Anders Nyrén and Carl-Henric Svanberg.

Board remuneration

Members of the Board who are not employees of the Company have not received any compensation other than the fees paid for Board duties as outlined in Notes to the Consolidated Financial Statements—Note C29, Information Regarding Employees, Members of the Board of Directors and Management. Members and Deputy Members of the Board who are employees (i.e. the CEO and the employee representatives) have not received any remuneration or benefits other than their normal employee entitlements, with the exception of a small fee paid to the employee representatives for each Board meeting attended.

RISK MANAGEMENT

Risk taking is an inherent part of doing business. Risks and opportunities are managed in our strategy and target setting processes and in all operational processes. Risks are identified, probability of occurrence assessed and potential consequences estimated. Actions are then taken to reduce or mitigate the risk exposures and limit potential unfavorable consequences. Controls and monitoring activities are in place to ensure effective risk management.

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We broadly categorize risks into operational risks and financial risks. We also manage risks related to financial reporting and compliance with applicable laws and regulations. Our approach to risk management reflects the scale and diversity of our business activities and balances central coordination and support with delegated risk management responsibilities within each operational unit.

For more information on risks related to our business, see also Risk Factors on page 144.

Operational risk management

Risk management has been integrated within the Ericsson Group Management System and each business process. The operational risk management framework applies universally across all business activities and is based on the following principles:

- Risks are dealt with on three levels to ensure operational effectiveness, efficiency and business continuity: in the strategy process, in annual target setting and within ongoing operations by transaction (e.g. customer bids/contracts, acquisitions, investments, product development projects) and by process.
- In the strategy and target setting processes, a balanced scorecard approach is used to ensure a comprehensive assessment of risks and opportunities across several perspectives: financial, customer/market, product/innovation, operational efficiency and employee empowerment.
- In the strategy process, objectives are set for the next five years. Risks are then assessed and strategies developed to achieve these objectives. To ensure that actions are taken to realize the strategies, focus areas are identified to be included in the near-term planning and target setting for the upcoming year. The five-year strategy and one-year targets are approved annually by the Board of Directors.
- Each risk is owned and managed by an operational unit that is held accountable and monitored through unit steering groups and Group Management.
- Approval limits are clearly established with escalation according to defined delegations of authority. Certain risks, such as information security/IT risks, corporate responsibility risks, physical security risks and insurable risks are centrally coordinated. A crisis management council is established to deal with ad hoc events of a serious nature, as necessary.

Financial risk management

We have an established policy governing the Group's financial risk management. This is carried out by the treasury function within the parent company and by a customer finance function. These are both supervised by the finance committee of the Board of Directors.

The policy governs identified financial risk exposures regarding:

- Foreign exchange risks, as the Company has significant transaction volumes and assets and liabilities in currencies other than SEK. The largest foreign exchange exposure was towards the USD and related currencies, which represented approximately 50 percent of sales in 2007. Spending exposure towards USD was approximately 35 percent. A variety of hedging activities are used to manage parts of the foreign exchange risks.
- Interest rate risks, as the values of cash and bank deposits, borrowings and post-employment liabilities as well as related interest income and expenses are exposed to changes in interest rates.
- Credit risks in trade and customer finance receivables, including credit risk exposures in identified high-risk countries, as well as credit risks regarding counterparties in financial transactions,
- Liquidity and financing risks, where the company's treasury function manages the company's liquidity through monitoring of its payment readiness and refinancing needs and sources.